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State Treasurer

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The LOCAL View

Local Option Capital Asset Lending

Responsible debt policy critical for locals

by **Michael J. Murphy**
State Treasurer

So: Your revenues are down, just like most other local governments in Washington. Does that mean your need for equipment and infrastructure is down, too? I suspect not.

If you're like most local political subdivisions, your usual sources of revenue (taxes, property assessments, etc.) aren't offering much budget breathing room for the things you need to buy, fix or replace. That's why the ability to borrow is such a critical tool in creating fiscal flexibility for governments of all kinds and sizes.

If you have debt, therefore, you need a debt policy. The debt-policy certification program of the Washington Municipal Treasurers Association (WMTA) can help. The WMTA's peer-review committee can evaluate your policy, offer helpful suggestions, and recommend your policy be certified by the association.

Why do you need a debt policy? First and foremost, it offers guidance and consistency for the serious decisions that face a local government when borrowing funds. Remember, when you borrow you're committing funds for a long time. A debt policy can help you set debt limits and better "sell" your borrowing decisions to the community.

A debt policy ...

- ▲ Clarifies and documents your financings and the management of all your debt.
- ▲ Ensures the many considerations of borrowing are reviewed in decision-making.
- ▲ Offers guidance for ongoing obligations (such as disclosure and arbitrage compliance).
- ▲ Helps to coordinate long-range planning for capital projects and debt issuance.

▲ Shows citizens and rating agencies your commitment to responsible debt issuance and management.

If you are interested in having your debt policy reviewed and certified through WMTA, contact Pam Johnson at the Office of the State Treasurer at (360) 902-9021 or pam@tre.wa.gov.

What should a debt policy cover?

- ☐ Legal and policy limits
- ☐ Long-range plan for capital projects and funding options
- ☐ What your debt program should fund – and should not
- ☐ Allowed methods of sale
- ☐ Types of debt instruments allowed
- ☐ Policies for selecting outside professionals
- ☐ Administration of ongoing obligations, e.g., disclosure and tax-law compliance (arbitrage)
- ☐ When to refund
- ☐ Periodic review of debt policy

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The basics: Your LOCAL questions answered

What is LOCAL?

The Local Option Capital Asset Lending (LOCAL) program is a low-cost, low-interest financing option administered through the Office of the State Treasurer (OST). It allows local governments with levy authority to join a pool of other local governments and state agencies to finance essential equipment and real estate purchases. The money participants borrow is acquired through the sale of Certificates of Participation (COPs), which are similar to bonds, to underwriters who then sell them to investors.

How can LOCAL help local governments?

Our experienced staff coordinates the issuance with bond counsel, financial advisors, underwriters, et al. The multi-million dollar financing issues attract competitive bids from national underwriters and so ensure low interest rates. Costs of issuance are shared by all participants. So, local governments benefit from low interest rates, reduced costs of issuance and reduced demands on staff time.

What can be financed?

Equipment or real estate – with a minimum of \$10,000.

How to get started?

A booklet explaining the program in more detail is available on our Web site: www.tre.wa.gov/local.htm. You'll also find answers there to frequently asked questions,

interest rates over the past year, and the application form in Word format.

Financing schedules

See page 4.

Funding

Funding for equipment may be made either as reimbursement or as payment directly to vendor. Real estate funding is always on a reimbursement basis.

Repayment

Payments of principal and interest are due twice a year on June 1 and December 1, payable to the state fiscal agent. The term is determined by the useful life of the equipment being financed as set by the Office of Financial Management (www.ofm.wa.gov/policy/30.50.htm), or 15 years for real estate. The minimum term is 36 months.

Program contacts

For additional information or estimated debt payment schedule, contact these finance professionals at the Office of the State Treasurer:

Real estate: **Kristi Wolgamot**, (360) 902-9020, kristi@tre.wa.gov.

Equipment: **Sue Melvin**, (360) 902-9022, smelvin@tre.wa.gov; or **Pam Johnson**, (360) 902-9021, pam@tre.wa.gov.

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Beyond the basics: How to take full advantage of LOCAL

Little things add up

Pool your smaller purchases to meet our \$10,000 minimum. While the \$5,000 you might plan for new computers won't meet our minimum, if you'll also be spending \$5,000 for new office furniture or other equipment, you can pool the purchases, even if they're from different vendors, and finance them with LOCAL. (The shortest useful life determines the maximum term). These pooled purchases can be made over several months, which leads to the next item...

Just in case

Whenever major capital items are purchased with cash, consider passing a reimbursement resolution within the next 60 days. That way, you can pool your purchases to meet the minimum, or delay a final decision on whether it would be more prudent to finance certain items rather than use cash that may be required for other needs. The reimbursement resolution doesn't commit you to LOCAL, but it does leave the option open.

Check interest rates

With interest rates so low today, you might find it makes sense to refinance an older bank or finance company contract that has a higher interest rate. You can use LOCAL for that, too. We'd be happy to prepare an estimated debt schedule so you can compare it with your older financing.

Fire districts now allowed multi-year levies

by **Roger Ferris**

Washington Fire Commissioners Association

House Joint Resolution 4220, which allows fire protection districts to ask voters for multi-year excess property tax levies, was introduced in 2002 by the Washington Fire Commissioners Association, passed unanimously by the 2002 Legislature and later that year approved by voters.

HJR 4220 received every major newspaper endorsement and earned better than a 70 percent yes vote statewide in the November general election.

The key point of the new law is that local fire districts can now go to their voters to request additional revenue for up to four years. In turn, it will provide an alternate funding

source for long-range financial planning.

Second, multi-year excess property tax levy authority enables fire districts to work with their constituents to determine and provide the appropriate level of services and funding.

In summary, the expanded authority of HJR 4220 helps fire districts reduce election costs and restore consistency to the budget process.

The WFCFA appreciates the support of the Legislature, business community and various fire service organizations.

If you have questions, contact WFCFA Executive Secretary Roger Ferris at 1-800-491-9322.

Quick fact

The LOCAL Program has financed more than \$45 million in equipment and real estate for 159 local governments in Washington.

Come see us

LOCAL representatives will staff booths at these upcoming conferences:

Washington Association of School Business Officials
May 7-9
Spokane

Association of Washington Cities
June 16-20
Spokane

Washington Association of Fire Chiefs
June 24-27
Pasco

LOCAL hero



This beauty, a 100-foot heavy-duty aerial ladder truck, was purchased by Kitsap Fire Protection District 2 (Bainbridge Island) last June. "The LOCAL program was the perfect solution," says Ken Guy, executive director for the district. "Instead of issuing long-term bonds, we got a loan from LOCAL and spread our payments over five years at a very low interest rate. The application was easy and there were no financing costs. Kudos to our state government for offering such a valuable financing program."

Annual LOCAL financing schedules

Real estate

Cutoff	Approx. funding date	First payment due
Aug. 15	Nov. 1	June 1 (following year)
Feb. 15	May 1	Dec. 1 (year of issue)

Equipment

Cutoff	Approx. funding date	First payment due
Feb. 1	March 10	June 1 (year of issue)
May 1	June 15	Dec. 1 (year of issue)
Aug. 1	Sept. 10	Dec. 1 (year of issue)
Nov. 1	Dec. 15	June 1 (following year)



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